

## Amortized Cost Based and Market Based Net Asset Value

### Statement of Procedures as to Valuation of Pool Securities and Stabilization of Net Asset Value for the Limited Term Pool (the “Pool”)

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#### **Rule 2a-7 Compliance Procedures**

These Rule 2a-7 Compliance Procedures (these “Procedures”) have been adopted by the State Investment Commission (“Commission”) in accordance with Rule 2a-7 (“Rule 2a-7”) under the Investment Company Act of 1940, as amended (the “1940 Act”) to assure that the requirements of Rule 2a-7 are satisfied and the Pool is operated within the meaning of Rule 2a-7. Although the Pool is not required to comply with Rule 2a-7, the Commission had determined that it is in the best interest of the Commonwealth and those accounts invested in the Pool to operate the Pool in a way that will allow it to qualify as a “2a-7 Like Fund” as defined by the Government Accounting Standards Board (GASB) in Statement 31. These Procedures supplement but do not supersede any additional requirements applicable to the Pool, including, but not limited to, Kentucky Revised Statutes Section 42.500, Kentucky Administrative Regulations and resolutions of this Commission. Capitalized terms used in these Procedures without definition and defined in Rule 2a-7 have the same meanings ascribed to them in Rule 2a-7.

It is anticipated that the net asset value of each share of the Pool will remain constant at \$1.00 and the Commission will employ specific investment policies and procedures to accomplish this result, although no assurance can be given that they will be able to do so on a continuing basis. These procedures provide for a review of the extent of any deviation of net asset value per share based on available market rates, from the \$1.00 price per share.

#### **I. Net Asset Value**

The Commission has determined that it is in the best interest of the Pool and of the respective investors that the Pool maintain a stable net asset value by use of the Amortized Cost Method. The Amortized Cost Method assumes that due to the short maturity of securities held in the Pool, their value will remain relatively stable. That is to say that due to the short period of time between the date of acquisition and the actual maturity date of the bond or note, the Pool’s net asset value can be determined by ratably accreting the difference between the acquisition price and the maturity value of securities in order to compute the value of the portfolio. This method provides certainty in valuation, but may result in periods during which the stated value of a portfolio security is higher or lower than the price the Pool would receive if the instrument were sold.

The Pool will continue to use the Amortized Cost Method only so long as the Commission believes that it fairly reflects the market-based net asset value of the Pool.

- A. The Office of Financial Management ("OFM") will, on at least one Business Day each week, and at such other times as the OFM deems appropriate, in consideration of market conditions, produce a mark-to-market appraisal and determination of the net asset value of the Pool for comparison with the amortized cost-based net asset value. The difference between the two is hereinafter referred to as "deviation".
- B. In determining market based net asset value per share, all securities for which market quotations (or appropriate substitutes that reflect current market conditions) are readily available shall be valued at market value. The OFM may rely on a generally recognized pricing service or may use actual quotations or estimates of market value reflecting current market conditions and believed to be appropriate indicators of value. The OFM may also use values derived from yield data relating to classes of securities obtained from generally recognized sources, provided that any prices based on yield data for classes of securities shall be based upon market quotations for sufficient numbers and types of securities to be a representative sample of each class of security held by the Pool, both in terms of the type and quality of securities. If at any time it shall come to the attention of the OFM that the prices based on yield data are not reasonably equivalent to market values, the OFM shall adjust the prices so obtained to reflect fair market values accurately and shall maintain documentation to support the adjusted price.
- C. In determining the market based net asset value per share, all Pool securities for which market quotations (or appropriate substitutes that reflect current market conditions) are not readily available shall be valued at their fair value determined in the best judgment of the OFM under the supervision and responsibility of the Commission. Absent unusual credit or market considerations, any security having a remaining maturity of 60 days or less for which market quotations (or appropriate substitutes that reflect current market conditions) are not readily available, shall be deemed to have a fair value equivalent to its amortized cost value.
- D. Upon the occurrence of any significant change in interest rates or other event that could materially change current market values, the OFM shall institute daily determinations of the current market based net asset value per share of the Pool until such time as either (i) the Commission shall have concluded that daily monitoring is no longer required, or (ii) the OFM determines that the effect of any such change in interest rates or other event no longer affects the market in which the securities are bought and sold.
- E. If the deviation with respect to the Pool is in excess of 0.25% or if the OFM believes that the deviation may result in dilution or other unfair results to investors or existing investors (i) the OFM will compute daily mark-to-market appraisals until the deviation drops below 0.25% and (ii) the OFM will promptly inform the Commission by telephone or email of the situation

and indicate what action, if any, is being taken to limit the deviation and the rationale for such action. In the event of any such deviation with respect to the Pool, the Chairman or designee of the Commission may call a meeting of the Commission, and shall do so promptly if so requested by any Commission member.

- F. In the event of any calculation thereof where the deviation with respect to the Pool exceeds 0.375%, or in the event that the Commission at any time believes that the extent of any deviation from the Pool's amortized cost value may result in material dilution or other unfair results to investors or existing investors, a meeting of the Commission shall be called and held as soon as practicable to consider what action, if any, should be initiated by the Commission. The Commission shall take such action as it deems appropriate to eliminate or to reduce, to the extent reasonably practicable, such dilution or unfair results

Actions which the Commission may take include, without limitation: redemption of shares in kind; the sale of Pool securities prior to maturity to realize capital gains or losses or to shorten the Pool's average maturity; withholding dividends or payment of distributions from capital or capital gains; or determining net asset value by using available market quotations or equivalents. In addition, the Commission may reduce or increase the number of shares outstanding on a pro rata basis, or offset each shareholder's pro rata portion of the deviation from the shareholder's accrued dividend account or from future dividends, or effect some combination of the foregoing. In case the Commission does not act, OFM shall, through the month end dividend distribution process, adjust the dividend to eliminate the deviation, even if this creates a negative dividend.

- G. The OFM will, at least monthly, or daily if the deviation from mark-to-market is in excess of 0.25% and at such other times as the OFM deems appropriate, in consideration of market conditions, stress test the Pool's ability to maintain a stable asset value per share based upon hypothetical events that include, but are not limited to, a change in short-term interest rates, an increase in shareholder redemptions, a downgrade of or default of portfolio securities, and the widening or narrowing of spreads among yields on the types of securities held in the Pool. At each regular meeting of the Commission, the OFM will provide and discuss the stress tests conducted during the preceding quarter and the assumptions made in conducting the testing.
- H. Records of the results of computations with regard to deviations between the amortized cost and market value net asset values for the Pool and the results of the stress testing of the Pool will be kept by the OFM, and a report on the results of these computations and stress testing, containing the information specified by paragraph (c)(10)(v) of Rule 2a-7, will be provided to the

Commission at each regular meeting (or sooner, if appropriate in light of the results). The Commission will review, at least quarterly, the deviations, the results of the stress tests and an assessment by the OFM of the Pool's ability to withstand the events (and concurrent occurrences of those events) that are reasonably likely to occur in the following twelve months. Because different tests may be appropriate for different market conditions, the OFM will also report on the actual test scenarios, including the parameters used. At least annually, the methods used to calculate the deviations and the hypothetical changes in market conditions will be reviewed by the Commission. The Commission may conduct such reviews at more frequent intervals if it determines that to do so would be appropriate and reasonable in light of current market conditions.

- I. As previously described, the Pool intends to use amortized cost and to transact share sales and redemptions at a stable net asset value. The Pool shall have the capacity to sell and redeem shares at prices that do not correspond to a stable net asset value.
- J. In addition to the requirements set forth in these Procedures, the Pool shall comply with the requirements of Rule 2a-7 necessary for it to meet GASB standards for 2a-7 Like Funds.

## **II. Maturity of Pool Instruments**

The OFM shall maintain the dollar weighted average maturity of the Pool in a manner that it believes is appropriate to the Pool's objective of maintaining a stable net asset value per share for the Pool; provided that (i) in no event shall any security be acquired with a remaining "maturity" (as such term is defined below) of greater than 397 calendar days; (ii) the dollar weighted average maturity of the Pool shall in no event exceed 60 days, computed in accordance with the procedures described in this section and (iii) the Pool shall not maintain a dollar weighted average portfolio maturity that exceeds 120 calendar days, determined without regard to the date of any interest rate readjustments.

By formal resolution, the Commission may elect, from time to time, to designate the maximum maturity of an investment which may be acquired by the Pool and the maximum dollar-weighted average maturity of the Pool as long as the designation is in accordance with Rule 2a-7.

For the purpose of computing maturity and dollar-weighted average maturity, the maturity of a Pool security is deemed to be the period remaining (calculated from the trade date or such other date on which the interest in the security is subject to market action) until the date on which, in accordance with the terms of the security, the principal amount must unconditionally be paid or, in the case of a security called for redemption, the date on which the redemption payment must be made, except that for a Variable Rate

Security, a Floating Rate Security, repurchase agreements and money market fund securities the basis shall be as follows;

A. **Variable Rate Security** is a security which provides for the adjustment of its interest rate on set dates and which, upon each adjustment until the final maturity of the security or the period remaining until the principal amount can be recovered through demand, can reasonably be expected to have a market value that approximates its amortized cost.

(1) A Government Security which is a Variable Rate Security, and which has its rate of interest readjusted no less frequently than every 397 days shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate.

(2) The maturity of each Variable Rate Security, the principal amount of which, in accordance with its terms, must unconditionally be paid in 397 calendar days or less, is deemed to be the earlier of (a) the period remaining until the next interest rate adjustment, or (b) the period remaining until the principal amount can be recovered through demand.

(3) The maturity of each Variable Rate Security, the principal amount of which is scheduled to be paid in more than 397 days and that is subject to a Demand Feature (as defined in paragraph (4) below), is deemed to be the longer of (a) the period remaining until the principal amount can be recovered through demand, or (b) the period remaining until the next interest rate adjustment.

(4) Each security having a remaining maturity of more than 397 days shall be subject to a Demand Feature. "Demand Feature" shall mean (i) a feature that entitles the Pool, as holder, to sell the security at an exercise price equal to the approximate amortized cost of the security plus accrued interest, if any, at the time of exercise. A Demand Feature must be exercisable either: (a) at any time upon no more than 30 calendar days' notice; or (b) at specified intervals not exceeding 397 calendar days and upon no more than 30 calendar days' notice; or (ii) if the security is an Asset Backed Security, a feature permitting the holder of the Asset Backed Security unconditionally to receive principal and interest within 397 calendar days of making demand.

B. **Floating Rate Security** is a security which provides for the adjustment of its interest rate whenever a specified rate changes and which, at any time until the final maturity of the security or the period remaining until the principal amount can be recovered through demand, can reasonably be expected to have a market value that approximates its amortized cost.

(1) The maturity of each Floating Rate Security, the principal amount of which, in accordance with its terms, must unconditionally be paid in 397 calendar days or less, shall be deemed to be one day.

(2) The maturity of each Floating Rate Security, the principal amount of which is scheduled to be paid in more than 397 days and that is subject to a Demand Feature (as defined in paragraph (3) below), is deemed to be the period remaining until the principal amount can be recovered through demand.

(3) Each security having a remaining maturity of more than 397 days shall be subject to a Demand Feature. Demand Feature shall mean (i) a feature that entitles the Pool, as holder, to sell the security at an exercise price equal to the approximate amortized cost of the security plus accrued interest, if any, at the time of exercise. A Demand Feature must be exercisable either: (a) at any time upon no more than 30 days' notice; or (b) at specified intervals not exceeding 397 calendar days and upon no more than 30 days' notice; or (ii) if the security is an Asset Backed Security, a feature permitting the holder of the Asset Backed Security unconditionally to receive principal and interest within 397 calendar days of making demand.

C. **Repurchase Agreements** are agreements in which an investor buys securities from a counterparty who agrees to buy the securities back at a later date at an agreed upon Resale Price. The Acquisition of a repurchase agreement may be deemed to be an Acquisition of the underlying securities, provided the obligation of the seller to repurchase the securities from the Pool is Collateralized Fully and consistent with the Commissions Procedures Governing Repurchase Agreements (Annex II to this Policy) The maturity of a repurchase agreement is deemed to be the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur or, where the agreement is subject to demand, the notice period applicable to a demand for the repurchase of the securities. The Commission must evaluate the creditworthiness of each counterparty to a repurchase agreement.

D. A **Money Market Pool's** maturity date is deemed to be the shorter of (i) the period remaining until the money market fund is required to make payment upon redemption or (ii) if the money market fund has agreed in writing to provide redemption proceeds to the investor within a shorter time period, such shorter time period.

E. **Second Tier Securities** will not be acquired.

### **III. Diversification**

The Pool shall be diversified with respect to issuers of securities other than Government Securities.

A. **Maximum Investment in Securities of a Single Issuer**

Immediately after the acquisition of any security (other than a Government Security or a security acquired in a repurchase agreement transaction that is

fully collateralized), the Pool will not have invested more than five percent of its Total Assets in securities of the issuer of such security; provided, however, that to the specific extent permitted by its disclosed investment policies and restrictions, the Pool may invest more than five percent of its Total Assets in the First Tier Securities of a single issuer for up to three Business Days after the acquisition, and provided, further, that the Pool may not hold more than one such investment at any one time.

- B. The Pool shall be diversified with respect to Demand Features and Guarantees of securities acquired by the Pool, as set forth below; all terms used in this section shall have the same meaning as in Rule 2a-7, as amended:

(1) Immediately after the acquisition of any Demand Feature or Guarantee or security subject to a Demand Feature or Guarantee, 75% of the Pool's Total Assets shall be diversified such that not more than 10% of the Pool's Total Assets are invested in securities issued by or subject to Demand Features or Guarantees from a single institution. Twenty-five percent of the Pool's Total Assets may be invested without regard to this requirement (25% Basket), provided that this limitation shall not apply to a guarantee that is itself a Guaranteed Security.

(2) Notwithstanding the foregoing paragraph:

- a. If the security subject to a Demand Feature or Guarantee is a Second Tier Security, the Pool as a whole shall be diversified such that not more than 2.5% of the Pool's Total Assets are issued or subject to a Guarantee or Demand Feature by any one institution, and
- b. The Pool shall not acquire any security subject to a Demand Feature or Guarantee of an institution ("supporting institution") if as a result of such acquisition, more than 10% of the Pool's Total Assets would be invested in securities issued by, or subject to Demand Feature or Guarantees issued by the supporting institution, unless all other Demands Features and Guarantees issued by the supporting institution with respect to any security then held by the Pool (excluding for this purpose securities other than Demand Features or Guarantees issued directly by the supporting institution) are Demand Features or Guarantees Issued By A Non-Controlled Person, as that term is defined in Rule 2a-7.<sup>1</sup>

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<sup>1</sup>The intended effect of this provision is to limit the securities held in the 25% Basket to First Tier Securities and Demand Features and Guarantees that are provided by institutions other than the institutions that are the issuers of the underlying securities.

- C. To comply with SEC Rule 8 (b) (1), the Pool shall be diversified so that at the time of acquisition no more than 25% of the Total Assets of the Pool are invested in the securities of issuers within the same industry (other than Government Securities and certain bank instruments issued by domestic banks<sup>2</sup>).
- D. At the time of acquisition no more than 25% of the Total Assets of the Pool may be invested in Structured or Variable Rate Notes.
- E. For purposes of calculating diversification, repurchase agreements must be calculated in accordance with Section II.C.

#### **IV. Eligible Security**

The OFM shall not purchase any investment for the Pool that does not meet the criteria established in Rule 2a-7 for Eligible Securities and is not in one of the following classes:

- A. The security is a Government Security.
- B. The security is issued by a registered investment company that is a money market fund within the meaning of Rule 2a-7.
- C. At the time of acquisition or rollover:
  - (1) The security is rated by at least two unaffiliated nationally recognized statistical rating organizations that do not control and are not controlled by or under common control with the issuer of, or any insurer, guarantor or provider of credit support for the securities (“NRSROs”) in one of the two highest short-term rating categories; or
  - (2) The security is rated by the only NRSRO which has issued a rating and is rated in one of the two highest short-term rating categories; or
  - (3) The security is unrated (or is a rated or unrated security that was issued with a remaining maturity of greater than 397 calendar days but has a remaining maturity of 397 calendar days or less) and has been issued by an issuer that has received a short-term rating by the only NRSRO which has issued a rating with respect to such issuer in one of the two highest categories with respect to a class of debt obligations, or any debt obligation within that class, that is comparable (as determined by the OFM) in priority and security to a rated security, as described above.
- E At the time of acquisition or rollover;

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<sup>2</sup> U.S. branches of foreign banks may be considered domestic banks if it can be demonstrated that they are subject to the same regulations as U.S. banks. Foreign branches of domestic banks are not registered in the U.S. and are not considered “domestic banks.”



- (1) The security is an Asset Backed Security; and
- (2) The Commission or the OFM has analyzed (i) the underlying assets to ensure that they are properly valued and provide adequate asset coverage for the cash flows required to fund the security under various market conditions; (ii) any liquidity terms or other support under various market conditions; and (iii) the terms of any legal or structural terms required to determine that the particular security involves the appropriate level of risk.

## **V. Quality**

The Pool will limit its selection of investments to those United States dollar denominated instruments which may be purchased in accordance with the requirements as set forth in Rule 2a-7. The OFM shall purchase only securities, including repurchase agreements, that (1) are consistent with the investment objective and policies of the Pool, (2) are determined by the OFM to present minimal credit risks (which determination must be based on its analysis of factors pertaining to credit quality in addition to any rating assigned to such security) and (3) conform to the requirements established in this Section. The Commission hereby delegates responsibility to the OFM for determining that the Pool security presents minimal credit risks and that each Unrated Security is of comparable quality to rated Eligible Securities under the guidelines included in these Procedures.

- A. In evaluating credit risks, the OFM shall consider all relevant factors, including, but not limited to, the following:

- (1) Whether the security is backed by the full faith and credit of the United States or only by the credit of the agency or instrumentality issuing the security;
- (2) Macro-economic factors which might affect the issuer's or any guarantor's current and future credit quality;
- (3) The strength of the issuer's or guarantor's industry within the economy and relative to economic trends;
- (4) The issuer's or guarantor's market position within its industry;
- (5) Cash flow adequacy;
- (6) The level and nature of earnings;
- (7) Capital and financial leverage;

- (8) Assets protection;
  - (9) The quality of the issuer's or guarantor's accounting practices and management;
  - (10) The likelihood and nature of event risks; and
  - (11) The likelihood of a sudden change of credit quality from external (e.g., hostile takeovers, litigation) and internal (e.g., financial restructuring, acquisitions) sources.
- B. If the security under consideration is issued by a state or local government, sources of repayment, autonomy in raising taxes and revenue, reliance on outside revenue sources and strength and stability of the supporting economy.
- C. If the security under consideration is issued or supported by the credit of a foreign bank or foreign branch of a U.S. bank or savings institution, the OFM should consider, but not be limited to, the following additional relevant factors:
- (1) The sovereign risks presented by such security (including, without limitation, risks related to foreign political and economic conditions and developments, the possible imposition of withholding taxes on interest income, the possible seizure or nationalization of foreign deposits, the possible establishment of exchange controls and the adoption of other foreign governmental restrictions that might adversely affect the payment of interest and principal);
  - (2) The relationship between the sovereign risks presented by the security involved and the other credit risks and characteristics of the security (for example, the relation between the sovereign risks and the maturity of a security);
  - (3) The reserve requirements and accounting, auditing, reporting and recordkeeping standards applicable to the issuer involved; and
  - (4) The quantity and quality of available information concerning the issuer involved.
- D. The Pool may rely solely upon the credit quality of the issuer of a Guarantee in determining whether a security subject to the Guarantee meets the requirements of Rule 2a-7, provided that:
- (1) Such Guarantee (or the issuer thereof) is rated by an NRSRO;

(2) The issuer of the Guarantee is not a person controlled by, under the control or under common control with the issuer of the security to which the Guarantee relates; and

(3) The issuer of the Guarantee (or another institution) has undertaken to notify the holder of the security if the Guarantee is substituted.

Guarantees that are issued by the U.S. Government or relate to repurchase agreements that are Collateralized Fully or are not relied upon for quality, maturity or liquidity purposes, are not required to be rated. If a determination is made by the Commission that the Pool is not relying on a particular Guarantee for the purpose of determining the quality, maturity or liquidity of the underlying security, a record of such determination shall be maintained and such determination shall be reviewed by the Commission at least annually and by the OFM in connection with its regular credit review process, as required under these Procedures.

E. The Pool may rely upon a Conditional Demand Feature in determining whether a security subject to the Conditional Demand Feature is an Eligible Security or First Tier Security, provided:

(1) That such Conditional Demand Feature is itself an Eligible Security or First Tier Security;

(2) That the Commission has determined that there is minimal risk that the circumstances that would result in the Conditional Demand Feature not being exercisable will occur; and

(3) That either the conditions limiting exercise of the Demand Feature may be easily monitored or relate to the taxability of interest payments on the underlying security; **or**

(4) The terms of the Demand Feature require that the Pool will receive notice of the occurrence of any such condition, the Pool will have the opportunity to exercise the Demand Feature and the underlying security has received a short or long term rating from the Requisite NRSRO within the two highest categories or, if unrated, is determined to be of comparable quality by the Commission. Satisfaction of this requirement may be determined with reference to the rating of any Guarantee relating to the underlying security or the ratings received by the issuer of the Guarantee or underlying security, in accordance with Section (c)(3)(iv)(C) of Rule 2a-7.

F. In the event that the OFM becomes aware that any security has, after acquisition by the Pool, been given a rating by an NRSRO that is below

the NRSRO's second highest rating, the OFM shall follow the "Procedures Relating to Downgraded Securities, Defaults and other Events" as set forth in Section VII of these Procedures.

- G. In the event (i) of a default with respect to a Pool security (other than an immaterial default unrelated to the financial conditions of the issuer); (ii) a Pool security ceases to be an Eligible Security; (iii) a portfolio security has been determined no longer to present minimal credit risks or (iv) an Event of Insolvency occurs with respect to the issuer of a Pool security or the provider of any Demand Feature or Guarantee, the OFM and the Commission, as applicable, shall follow the "Procedures Relating to Downgraded Securities, Defaults and other Events" as set forth in Section VII of these Procedures.

## **VI. Liquidity**

The Pool will hold securities that are sufficiently liquid to meet reasonably foreseeable redemptions in light of Section 22(e) of the 1940 Act and any commitments the Pool has made to investors, provided, however, that:

- A. A Pool will not acquire any Illiquid Security if immediately after the acquisition more than five percent of the Total Assets are invested in Illiquid Securities.
- B. The Pool will not acquire any security other than a Daily Liquid Asset if, immediately after acquisition, the Pool would have invested less than fifteen percent of its Total Assets in Daily Liquid Assets.
- C. The Pool will not acquire any security other than a Weekly Liquid Asset if, immediately after acquisition, the Pool would have invested less than thirty percent of its Total Assets in Weekly Liquid Assets.

## **VII. Security Downgrades, Defaults and Other Events**

If subsequent to the acquisition of a security for the Pool the security ceases to be a First Tier Security the OFM shall dispose of such security as soon as practicable consistent with achieving an orderly disposition of the security, unless it concludes that disposal of the security would not be in the best interests of the Pool (which determination may take into account, among other factors, market conditions that could affect the orderly disposition of the security). If the OFM so concludes, this recommendation will be communicated to the Commission promptly by telephone or email if the downgrade causes the security to have a rating lower than "A-2" or comparable short term rating.

- A. If the security is disposed of or matures within five Business Days of the specified event the OFM shall notify the Commission at its next regular meeting.
- B. In the event that after giving effect to a rating downgrade, more than 3% of the Pool's Total Assets are invested in Second Tier Securities, the OFM shall cause the Pool to reduce its investment in securities so that no more than 3% of its Total Assets are Second Tier Securities by selling securities or exercising the Demand Features at the next succeeding exercise date(s), absent a finding by the OFM that disposal of the security would not be in the best interests of the Pool. If the OFM so concludes, it shall promptly advise the Chairman or designee by telephone or email that a meeting of the Commission should be held, at which the OFM shall report on its conclusion, and the Commission shall take such action as the Commission deems to be in the best interests of the investors. This section does not supersede the requirements of III.A.2.
- C. In the event of (i) a default with respect to one or more portfolio securities (other than an immaterial default unrelated to the financial condition of the issuer) or (ii) an Event of Insolvency with respect to the issuer of a portfolio security or any Put which supports a security, where, immediately before default or Event of Insolvency, the securities (or securities subject to the Put) accounted for 1/2% or more in the aggregate of the Pool's Total Assets, the OFM shall immediately notify the Chairman or designee of the Commission of such fact and of the action the OFM intends to take in response to such situation. The OFM shall promptly report to the Commission the actions it takes in the event of any default of a security or Event of Insolvency with respect to the issuer of a security or any Put which supports a security, whether or not the default or Event of Insolvency requires notification to the Commission.
- D. If the interest rate, as adjusted, of any Variable Rate Security or Floating Rate Security does not sufficiently eliminate material unrealized appreciation or depreciation on the adjustment date (due to unforeseen circumstances other than a decline in the rating of the security to below Eligible Security quality), the OFM shall immediately evaluate whether the continued holding of the security is in the best interests of the Pool and consistent with the requirements of Rule 2a-7.

### **VIII. Security Monitoring**

In order to ensure compliance with these Procedures, the OFM shall subscribe to such services as it deems appropriate, and shall monitor credit ratings, changes in ratings, general market conditions and financial events.

In applying the definition of Eligible Security, the following interpretations shall be used:

- A. An Unrated Security that at the time of issuance had a maturity of greater than 397 calendar days but has a remaining maturity of 397 calendar days or less may not be acquired or rolled over if the security has a long-term rating from an NRSRO that is not within the NRSRO's three highest categories.
- B. The OFM may find that a Standby Commitment that is not a Demand Feature is of comparable quality to a security meeting the requirements of Section IV, paragraph C or D if it finds that the issuer of the commitment presents a minimal risk of default.
- C. A security that has a Demand Feature may not be determined to be an Eligible Security unless:
  - (1) The Demand Feature has received a short-term rating from an NRSRO or the issuer of the Demand Feature has received from an NRSRO a short-term rating with respect to a class of debt obligations or any debt obligation within that class that is comparable (as determined by the OFM) in priority and security to the Demand Feature;
  - (2) The issuer of the Demand Feature, or another institution, undertakes to notify promptly the holder of the security in the event that the Demand Feature is substituted with a Demand Feature provided by another issuer.
- D. An Asset Backed Security shall not be an Eligible Security unless it has a debt rating from an NRSRO and, in addition, satisfies the other requirements for an Eligible Security.

## **IX. Disclosure**

By the fifth business day after the end of each month, the OFM will post to its website, and retain there for a period of at least six months, a schedule of the investments of the Pool, as of the last Business Day of the prior month, that includes the following information:

- A. With respect to the Pool and each class thereof:
  - (1) The dollar weighted average maturity of the Pool; and
  - (2) The dollar weighted average maturity of the Pool determined without regard to interest rate readjustments
- B. With respect to each security held by the Pool:
  - (1) Name of issuer;

- (2) Category of investment (using the categories specified by Rule 2a-7);
- (3) CUSIP (if any);
- (4) Principal amount;
- (5) Maturity date, as determined in accordance with paragraph II of these Procedures;
- (6) Final legal maturity date;
- (7) Coupon or yield; and
- (8) Amortized cost value.

#### **X. Recordkeeping**

The OFM shall recommend to the Commission changes in the method of valuation used by the Pool, or in these Procedures, whenever it is believed that such methods of valuation or these Procedures should be reconsidered. In this connection, the Commission shall review annually these Procedures, including the use of the Amortized Cost Method.

The OFM shall report to the Commission at each regularly scheduled meeting of the Commission whether the operations of the Pool have complied with these Procedures and Rule 2a-7. The OFM shall furnish to the Commission at each regularly scheduled meeting a list of all portfolio instruments held by the Pool as of the last day of each month for the most recent quarter ended. At least annually the OFM shall report to the Commission as to the OFM's procedures for determining that each security acquired by the Pool presents minimal credit risk and for complying with these Procedures and Rule 2a-7.

- A. The Pool's officers shall record, maintain and preserve for a period of not less than six years (the first two years in an easily accessible place) a written record of the Commission's considerations and actions taken in connection with the discharge of its responsibilities, as set forth above, to be included in the minutes of the Commission's meetings.
- B. The OFM shall record, maintain and preserve for a period of not less than six years (the first two years in an easily accessible place) records of its determinations of the deviation in the market based and amortized cost net asset values per share of the Pool and of its reports on the results of the stress tests required by paragraph I.G. of these Procedures.
- C. The OFM shall report to the Commission promptly upon any determination by it that, due to changes in money markets or other

circumstances, the amortized cost method does not fairly reflect the market-based net asset value per share of the Pool.

- D. The OFM shall present to the Commission at each regularly scheduled meeting a report comparing the amortized cost and market-based values per share of the Pool during the period since the previous report.
- E. The OFM shall present to the Commission at least annually (but more frequently if it deems appropriate) a report evaluating the accuracy and fairness of the methods used to calculate the deviation between the amortized cost and market-based values per share of the Pool pursuant to Section I above, and of the desirability of implementing any change in such methods. Such report shall include a review of the accuracy and fairness of any pricing system for portfolio securities based on yield data sufficient to permit the Commission to determine whether appropriate valuations are being obtained by use of such system, and, if a valuation service is used to value portfolio securities, a review of whether such service provides fair and accurate values.
- F. The OFM shall present to the Commission a summary of the procedures it uses to evaluate the creditworthiness of the issuers of Pool securities, and will not make significant changes thereto to reduce the scope of such procedures without obtaining Commission approval.
- G. The OFM shall present to the Commission at each regularly scheduled meeting;
  - (1) A list of any securities acquired since the previous such report, which are not permitted investments under these procedures;
  - (2) A statement of the dollar-weighted average maturity of the Pool and a discussion of the economic and other market conditions that it believes make such maturity appropriate;
  - (3) A review of each illiquid Pool security; and
  - (5) A statement of the percentage of the Pool comprised of Second Tier Securities.
- H. The OFM shall provide the Commission at each regularly scheduled meeting with its representation that the Pool have held only securities permitted by Rule 2a-7, these Procedures and its investment objective and policies or a report of the exceptions.

Dated: June 27, 2012



## **Annex I**

### **DEFINITIONS**

“Asset Backed Security” means a fixed income security (other than a Government Security) issued by a Special Purpose Entity, substantially all of the assets of which consist of Qualifying Assets.

“Business Day” means any day, other than a Saturday, Sunday, or any customary business holiday that is not a Commonwealth designated holiday.

“Collateralized Fully” in the case of a repurchase agreement means that;

- (1) the value of the securities collateralizing the repurchase agreement (reduced by the transaction costs (including loss of interest) that the Pool reasonably could expect to incur if the seller defaults) is, and during the entire term of the repurchase agreement remains, at least equal to the Resale Price (as defined below) provided in the agreement; and
- (2) the Pool has perfected its security interest in collateral; and
- (3) the collateral is maintained in an account of the Pool with its custodian bank or a third party that qualifies as a custodian under the 1940 Act;; and
- (4) the collateral consists entirely of cash and/or Government securities. “Resale Price” for purposes of this definition means the purchase price paid to the seller of the securities plus the accrued resale premium on such purchase price. The accrued resale premium is the amount specified in the repurchase agreement or the daily amortization of the difference between the purchase price and the resale price specified in the repurchase agreement.

“Conditional Demand Feature” means a Demand Feature that is not an Unconditional Demand Feature. A Conditional Demand Feature is not a Guarantee.

“Conduit Security” means a security issued by a Municipal Issuer involving an arrangement or agreement entered into, directly or indirectly, with a person other than a Municipal Issuer, which arrangement or agreement provides for or secures repayment of the security. “Municipal Issuer” means a state or territory of the United States (including the District of Columbia), or any political subdivision or public instrumentality of a state or territory of the United States. A Conduit Security does not include a security that is:

- (i) fully and unconditionally guaranteed by a Municipal Issuer;
- (ii) payable from the general revenues of the Municipal Issuer or other Municipal Issuers (other than those revenues derived from an agreement or arrangement with

a person who is not a Municipal Issuer that provides for or secures repayment of the security issued by the Municipal Issuer);

- (iii) related to a project owned and operated by a Municipal Issuer; or
- (iv) related to a facility leased to and under the control of an industrial or commercial enterprise that is part of a public project which, as a whole, is owned and under the control of a Municipal Issuer.

“Daily Liquid Asset” means:

- (i) Cash;
- (ii) Direct obligations of the U.S. Government; or
- (iii) Securities that will mature or are subject to a Demand Feature that is exercisable and payable within one Business Day.

“Demand Feature” See Section II.A(4). A letter of credit or bond insurance may be treated as a demand feature if the period until the final maturity date of the security subject to the letter of credit or bond insurance is 397 days or less.

“Demand Feature Issued by a Non-Controlled Person” means a Demand Feature issued by a person that, directly or indirectly, does not control, and is not controlled by or under common control with the issuer of the security subject to the Demand Feature. “Control” means the power to exercise a controlling influence over the management or policies of a company, unless such power is solely the result of an official position with such company. The presumptions relating to control or absence of control in Section 2(a)(9) of the Investment Company Act are deemed to apply to this definition.

“Event of Insolvency” means, with respect to an issuer or guarantor:

- (i) An admission of insolvency, the application by the issuer or guarantor for the appointment of a trustee, receiver, rehabilitator, or similar officer for all or substantially all of its assets, a general assignment for the benefit of creditors, the filing by the issuer of a voluntary petition in bankruptcy or application for reorganization or an arrangement with creditors; or
- (ii) The institution of similar proceedings by another person which proceedings are not contested by the issuer or guarantor; or
- (iii) The institution of similar proceedings by a government agency responsible for regulating the activities of the issuer or guarantor, whether or not contested by the issuer or guarantor.

“First Tier Security” means any Eligible Security described in Section IV rated in the highest rating category by the two NRSROs or single NRSRO described therein, or any Unrated Security that is of comparable quality as determined by the OFM.

“Floating Rate Security” means a security which provides for the adjustment of its interest rate whenever a specified rate changes and which, at any time until the final maturity of the security or the period remaining until the principal amount can be recovered through demand, can reasonably be expected to have a market value that approximates its amortized cost.

“Government Security” has the meaning assigned in Section 2(a)(16) of the Investment Company Act (any security issued or guaranteed as to principal and/or interest by the United States, or by a person controlled or supervised by and acting as an instrumentality of the government of the United States pursuant to authority granted by the Congress of the United States, or any certificate of deposit for any of the foregoing) and also includes such other securities as may be deemed to be “Government Securities” by the Securities and Exchange Commission for these purposes.

“Guarantee” means an unconditional obligation of a person other than the issuer of the security to undertake to pay, upon presentment by the holder of the Guarantee (if required), the principal amount of the underlying security plus accrued interest when due or upon default, or, in the case of an unconditional demand feature, an obligation that entitles the holder to receive upon exercise the approximate amortized cost of the underlying security or securities, plus accrued interest, if any. A Guarantee includes a letter of credit, financial guaranty (bond) insurance and an unconditional demand feature (other than an unconditional demand feature provided by the issuer of the security).

“Guarantee Issued by a Non-Controlled Person” means a Guarantee issued by a person that, directly or indirectly, does not control, and is not controlled by or under common control with the issuer of the security subject to the Guarantee; or a sponsor of a Special Purpose Entity with respect to an Asset Backed Security.

“Illiquid Security” means any security that cannot be sold or disposed of in the ordinary course of business within seven calendar days at approximately the value ascribed to it by the Pool, including repurchase agreements having maturities of greater than seven days, non-negotiable securities and securities for which no market exists (other than non-negotiable securities which may be redeemed with the issuer at par within seven days).

“Municipal Issuer” See definition of “Conduit Security.”

“Qualifying Assets” means financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to investors.

“Resale Price” See definition of “Collateralized Fully.”

“Second Tier Security” means any Eligible Security, as defined in Section IV that is not a First Tier Security.

“Special Purpose Entity” means an entity organized for the sole purpose of issuing fixed income and other securities which entitle their holders to receive payments that depend primarily on the cash flow from Qualifying Assets, but does not include a registered investment company.

“Total Assets” means the total amortized cost value of the Pool’s assets calculated at the end of a Business Day.

“Unconditional Demand Feature” means a Demand Feature that by its terms would be readily exercisable in the event of a default in payment of principal or interest on the underlying security or securities.

“Unconditional Demand Feature Issued by a Non-Controlled Person” means an Unconditional Put that is also a Demand Feature Issued by a Non-Controlled Person.

“Unrated Security” means:

- (1) a security (whether initially issued as a short-term or long-term security) with a remaining maturity of 397 days or less issued by an issuer that does not have a current short-term rating assigned by any NRSRO:
  - (a) to the security, or
  - (b) to the issuer with respect to a class of debt obligations (or any debt obligation within that class) that is comparable (as determined by the OFM) in priority and security with the security or a Demand Feature with respect to the security; and
- (2) a security that is a rated security and is the subject of an external credit support agreement (including an arrangement by which the security has become a Refunded Security) that was not in effect when the security (or the issuer) was assigned its rating, unless the security has a rating from an NRSRO reflecting the existence of the credit support agreement.

“Variable Rate Security” means a security which provides for the adjustment of its interest rate on set dates and which, upon each such adjustment until the final maturity of the security or the period remaining until the principal amount can be recovered through demand, can reasonably be expected to have a market value that approximates its amortized cost.

“Weekly Liquid Asset” means:

- (i) Cash;
- (ii) Direct obligations of the U.S. Government;
- (iii) Government securities that are issued by a person controlled or supervised by and acting as an instrumentality of the Government of the United States pursuant to authority granted by the Congress of the United States that:

- (A) Are issued at a discount to the principal amount to be repaid at maturity:  
and
  - (B) Have a remaining maturity date of 60 days or less; or
- (iv) Securities that will mature or are subject to a Demand Feature that is exercisable and payable within five Business Days.